

# **CHINA'S WTO ACCESSION AND PERMANENT NORMAL TRADE RELATIONS**

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Senate Banking Committee  
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Mr. Chairman, Senator Sarbanes, Members of the Committee:

The House's vote on extension of permanent Normal Trade Relations to China, as China enters the World Trade Organization, will be one of the most important trade and foreign policy decisions the United States has made in many years. I thank you for this opportunity to join with Secretary Summers in testifying on its significance for the United States.

## **INTRODUCTION: ONE-WAY CONCESSIONS**

In a sense, this decision presents us with a simple choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession which secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era, through specific and detailed commitments on tariffs, quotas, trading rights, distribution, sanitary and phytosanitary measures, the full range of services industries and other issues.
- Strengthen our guarantees of fair trade, with specific provisions to address dumping into the U.S. market, import surges, technology transfer as a condition of investment and other practices intended to draw jobs and research to China, textile trade and other issues.
- Give us far greater ability to enforce China's trade commitments.
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access commitments.

By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we accept the benefits of China's accession and the agreement we negotiated; or whether on the contrary, by turning away from permanent NTR, we enable our competitors in Asia, Latin America, Canada and Europe to take advantage of these benefits while American entrepreneurs, farmers and factory workers are left behind.

## **I. CHINA'S WTO ACCESSION IN HISTORIC CONTEXT**

From the perspective of trade policy, therefore, this is a relatively simple decision. But China's WTO accession also has deeper implications.

China is the world's most populous country; over the past decade, it was the world's fastest-growing major economy. Our relationship thus affects all of America's foreign policy and security goals in Asia today, and its future course will be one of the major issues for Americans throughout the next decades. And the WTO accession, together with permanent NTR, will have a substantial impact on the future of China and our relationship with China.

When we look at our relationship with China today, we see a number of serious differences. In these cases, we have and will continue to assert our values and interests with candor and firmness -- as we have recently done at the UN Human Rights Commission in Geneva. At the same time, however, we also see a responsibility to develop a stable, mutually beneficial relationship in which we and China act upon areas of shared benefit and mutual interest. China's WTO accession, together with permanent NTR, is an example of just such shared interest and benefit.

- By opening the Chinese economy to U.S. goods, services and agricultural products, the WTO accession and PNTR will create significant new opportunities for American businesses, farmers and working people; and it will help to reform and improve a deeply imbalanced existing trade relationship.
- By helping to open and liberalize China's economy, WTO accession will create new economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. A number of leading Chinese and Hong Kong advocates of democracy thus endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.
- And by integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. Together with our military presence in the Asia-Pacific and our alliances with Japan, South Korea and other Pacific democracies, it will thus be a factor in favor of long-term regional peace.

## **AMERICA AND THE TRADING SYSTEM**

Let me now turn to a detailed review of our bilateral agreement on WTO accession, beginning with the historic context in which we should view this event.

The World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the personal experience of President Truman and his European counterparts in Depression and war. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 113 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest importer and exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

But the development of the trading system has had equally important effects worldwide. As it has developed over the past fifty years, the world economy has grown six-fold; per capita income nearly tripled; and hundreds of millions of families escaped from poverty. And perhaps the best testimony to this success is that many of the new applicants to join the WTO are nations which are abandoning the postwar experiment in communist central planning.

### **CHINA FROM REVOLUTION TO REFORM**

This brings me to China.

With the Communist revolution, China set out upon a very different road. After 1949, it shut doors it had once opened to the world. Among its new leaders' first steps were to expel foreign businesses from China and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of the right to object to these policies.

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only

in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

And as China has opened its economy to the world, it has become a more integrated, responsible member of the Pacific community. To choose a specific example, in 1997, South Korea and the ASEAN states were the market for \$22.3 billion worth of Chinese semiconductors, video CD players, rice, apparel and other goods. Setting Hong Kong aside, that is one dollar in six of China's exports to the world. These countries were also the source of \$6 billion in foreign direct investment in China, meaning (again with Hong Kong excepted) a seventh of the FDI China received that year.

This has implications not only for China's economy, but to our own vital interest in a peaceful and stable region – because 1997 was, of course, the year of the financial crisis. A generation ago, China might have seen the event as a revolutionary opportunity. In 1997 its reaction was entirely different: the crisis was a threat to the export markets that support Chinese factories and farm income, and to the Asian investment that creates jobs and growth.

The constructive and stabilizing policies China adopted, through currency stability and contribution to IMF-led recovery programs, thus reflected basic self-interest. But in historic context, they enabled us to deal with the crisis primarily as an economic and humanitarian disaster, rather than a security crisis. And they are thus evidence of a change in China's view of its own regional interests and role whose importance for our national security cannot be overstated.

## **THE ROLE OF U.S. TRADE POLICY**

A bipartisan U.S. trade policy over the past thirty years has contributed to these positive trends.

Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americans. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, more specific agreements in the 1980s; and then a series of recent and highly focused agreements including:

- Intellectual Property – In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property-based products cost our industry hundreds of millions of dollars and led to trade confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1995, and then won further commitments in 1996 that led China to close over 70 pirate production facilities; cease the export of pirated products and significantly improve enforcement – the principal focus of the agreements.
- Textiles – Likewise, textile transshipment and market access barriers have historically been a problem in our textile trade relationship with China. While problems remain, two separate agreements, in 1994 and 1997, combined with sustained enforcement efforts by the U.S. Customs Service and the Administration, as well as imposition of triple charge penalties, have helped to mitigate these problems. The 1997 agreement, in fact, committed China for the first time to significantly reduce its textile import restrictions.
- Agriculture – Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to China's unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we continue to hold frequent consultations with the Chinese authorities charged with implementing the agreement, and have seen very significant results in the first shipments of Pacific Northwest wheat, California and Florida citrus, and U.S. meats to China.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done.

China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

## **II. CHINA'S WTO ACCESSION, PNTR, AND U.S. TRADE INTERESTS**

The WTO accession agreement therefore builds upon thirty years of work, to reach a detailed, specific and enforceable series of commitments covering the range of American trade priorities in China. As China has looked to WTO accession to create jobs and foster sustainable growth through economic reform, we have won commercially meaningful and enforceable commitments that help Americans on the farm and on the job export to China by addressing the many layers of trade barriers and policies which limit access; strengthen guarantees of fair trade;

and give us additional tools for enforcement and compliance.

Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago. Let me now offer an overview of the agreement, and then turn to its specific features.

## OVERVIEW

First, our bilateral agreement is comprehensive. It will reduce Chinese trade barriers across the range of goods, services and agricultural products; eliminate or sharply reduce restrictions on freedom to import and distribute goods within China; address industrial policies intended to draw jobs and technology to China; and strengthen our guarantees of fair trade practices. All these reflect the ideas, advice and guidance we have received over years of negotiations from Members of the Committee and Congress as a whole.

Second, it is fully enforceable. China's commitments in all areas are specific and include timetables and final dates for full implementation. These commitments are enforceable through our trade laws, WTO dispute settlement and other special mechanisms including periodic multilateral review of China's implementation and compliance. These will, of course, require vigilance and constant commitment to enforcement by the United States as well as by China's other trading partners in the WTO. We are committed to vigorous monitoring and enforcement, and are already preparing for this through a number of different means: for example, the President's budget this year requests a tripling of the Commerce Department's budget for China trade enforcement, and an additional full-time China officer at USTR.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

I will now turn to a review of the details in each major sector.

## SERVICES

In services, China will open markets across the spectrum of distribution services, financial services, telecommunications including the Internet, professional, business and computer services, motion pictures, environmental services, and other industries. In some fields, such as audiovisual services, China will be one of only a very few WTO members with specific and binding commitments. China will also participate in both of the WTO's newest services agreements – the Agreement on Basic Telecommunications and the Agreement on Financial Services.

Specific commitments in the services industries include the following

Grandfathering – China will protect the existing activities and market access of all service providers operating in China at the time of accession. This includes financial services.

Financial Services Agreement – In joining the WTO, China agrees to participate in the Financial Services Agreement. This, covering nearly \$60 trillion in banking, insurance and securities transactions each year, is history's largest single trade agreement ever. Though it went into force just a short time ago, it has already helped American banks, securities firms and insurance companies expand operations and find new market opportunities, through ownership of and investment in foreign banking institutions, brokerage and insurance sectors, as well as through cross-border trade. This has the potential to significantly increase U.S. financial services exports - which have already grown by \$4 billion since 1992, to total \$13.7 billion in 1998. We do not have final export figures by services industry as yet for 1999, but overall private services exports grew by approximately 5%.

China now stands ready to make such financial services commitments itself. In China we currently face one of the world's most restricted markets, as evident in our very small total of \$49 million in financial service exports to China in 1998. The WTO accession will make broad and deep changes in this situation:

Insurance -- Today, only two U.S. insurers operate in China's market. (Two others are expected to begin operations soon.) China reserves the right to deny licenses on almost entirely arbitrary grounds, to restrict operations to particular cities and to terminate existing rights when it chooses to do so.

With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years, and permit internal branching as these restrictions lift. Further commitments will enable foreign insurers to offer group, health and pension lines of insurance within five years; for non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary within two years. And for life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

- Banking -- The status quo in banking is equally restrictive. Foreign banks cannot now conduct local currency business with Chinese clients, and only a few can engage in local currency business even with foreign businesses or individuals. With WTO accession, as in the case of insurance, China also imposes severe geographic restrictions on the establishment of foreign banks.

With this agreement, China commits to full market access in five years for American financial institutions established in China. China will allow internal branching and provide national treatment for all newly permitted activities. Geographic restrictions will be lifted on a set schedule, and abolished within five years. Foreign banks will be guaranteed the right to conduct business in foreign currency with all clients, and in local currency, with foreign clients on accession. They will be able to conduct business in local currency with Chinese enterprises starting two years after accession, and with Chinese individuals after five years. Financial leasing will be allowed for foreign-owned banks when allowed for domestic banks. Upon accession, non-bank financial institutions will be permitted to

provide auto-financing without any market access or national treatment limitations.

- Securities -- In securities, China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. And China will hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

China's commitments in our bilateral agreement also, of course, extend to the full range of services industries.

Distribution – China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement, China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right, and as noted below, will help our exporters of industrial goods and farm products to do business more easily in China.

Telecommunications – China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services such as the Internet within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, allowing 49% foreign investment in all services and 50% foreign ownership for value-added and paging services in two years.

Audiovisual – China does not now allow foreign participation in distribution of sound recordings. Under the agreement, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Travel and Tourism – U.S. travel agencies will now be able to provide a full range of services for Americans in China, such as access to government resorts and major tourist centers.

Other – Also covered is a broad range of other services. In the professions, China has made a full range of commitments for architecture, engineering, accounting, and legal services. Likewise, new opportunities will open in computer and business services, with China making commitments on hardware installation, data processing and tabulation services, and time-sharing services



software implementation services, systems and software consulting services, systems analysis services, systems design services, programming services, systems maintenance services, data processing services, input preparation services. Other fields include management consulting, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

## **INDUSTRY**

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind them at these new, lower levels. It will eliminate quotas and other numerical restrictions. And it will allow American firms to import and distribute their products freely in China. This is essential, as American companies, farmers and workers need the ability to import, export and distribute goods in China to compete effectively -- rights currently denied but which will be permitted under the agreement, allowing our businesses to export to China from here at home, and to have their own distribution networks in China, rather than being forced to set up factories there to sell products through Chinese partners. Some highlights include:

Trading Rights – China will grant American companies, over a three-year phase-in period, rights to import and export most products without Chinese middlemen. Currently, the right to engage in trade (importing and exporting) is strictly limited; only companies that receive specific authorization or who import goods to be used in production have such rights. This limits not only the ability of U.S. companies to do business in China, but in particular has limited U.S. exports.

Fertilizer – As an addendum to our November 1999 bilateral agreement, we have reached an agreement with China that will effectively provide market access for U.S. fertilizer. The agreement sets up a TRQ system for importation of fertilizer products of priority interest to the United States that is similar to the system we negotiated for agricultural products.

Distribution – As in the case of trading rights, the right to distribute products is critical to our ability to export successfully to China. After accession, China will allow American firms to market, wholesale, retail, repair and transport their products -- whether produced in China or imported. At present, China generally prohibits companies from distributing imported products or providing related distribution services such as repair and maintenance services. China will permit enterprises to engage in the full range of distribution services over a three-year phase-in period for almost all products.

Tariffs – China will make substantial tariff cuts on accession with further cuts phased in, two thirds of which will be completed in three years and almost all of which will be completed within five years. On U.S. priority industrial items, tariffs will drop on average to 7.1% -- a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these low levels. Some specific examples include:

Information Technology Agreement – China will participate in the Information

Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

Autos – China will reduce tariffs on autos from rates of 80%-100% today to 25% in 2006, and on auto parts to an average of 10% from an average of over 23%.

Wood and Paper Products – China will reduce high tariffs on wood and paper to levels generally about 5% and 7.5% respectively. As noted below, China will also implement any sectoral APEC Accelerated Tariff Liberalization initiative adopted by the WTO in this sector.

Chemicals – China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to an average rate of 6.9%. These reductions include reductions on all priority U.S. chemical exports.

Furniture – China will reduce its current average tariff rate of 22% to 0% on all furniture items covered by the Uruguay Round sectoral initiative, by 2005.

Accelerated Tariff Liberalization -- China has agreed to implement the Accelerated Tariff Liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers – China will eliminate quotas and other quantitative restrictions upon accession for top U.S. priorities, including certain fertilizers and fiber-optic cable.

## **AGRICULTURE**

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time. It will adopt tariff-rate quotas that provide significant market access for bulk commodities of special importance to American farmers. It will agree to apply science-based sanitary and phytosanitary standards including in grains, meats and fruits. And it will eliminate export subsidies. Notable achievements here include:

Tariffs – China's agricultural tariffs will fall from 31% to 14% for our priority items. All cuts occur over a maximum of four years, and will be bound at the applied levels. To cite a few examples:

	Current Level	Under the Agreement
<u>Beef</u>	45%	12%
<u>Pork</u>	20%	12%
<u>Poultry</u>	20%	10%
<u>Citrus</u>	40%	12%

<u>Grapes</u>	40%	13%
<u>Apples</u>	30%	10%
<u>Cheese</u>	50%	12%
<u>Crayfish</u>	30%	15%
<u>Lobster</u>	30%	15%
<u>Wine</u>	65%	20%
<u>Beer</u>	70%	0%

TRQs – China will liberalize its purchase of key bulk agricultural commodities like wheat, corn, rice, cotton and soybean oil, through tariff-rate quotas – that is, application of very low tariffs (1% for bulk commodities) on a set volume of commodities. We include in this portion of the agreement provisions to maximize the likelihood that these TRQs are filled. In particular, a portion of each TRQ is reserved for importation through private traders, and TRQs which have not been filled by a set date will be redistributed to other end-users with an interest in importing on a first-come, first-served basis. Some salient examples include:

	<u>1998 Total Imports</u>	<u>Initial TRQ</u>	<u>2004 TRQ</u>	<u>Private Share</u>
<u>Cotton</u>	200,000 mt	743,000 mt	894,000 mt	67%
<u>Wheat</u>	2,000,000 mt	7,300,000 mt	9,636,000 mt	10%
<u>Corn</u>	250,000 mt	4,500,000 mt	7,200,000 mt	25%, grows to 40%
<u>Rice</u> total	250,000 mt	2,660,000 mt	5,320,000 mt	----
short/med grain		1,330,000 mt	2,660,000 mt	50%
long grain		1,330,000 mt	2,660,000 mt	10%

Export Subsidies – China will eliminate agricultural export subsidies. This is an important achievement in its own right, and a step toward our goal of totally eliminating export subsidies worldwide.

Domestic Support – China has committed to cap and reduce trade-distorting domestic subsidies. China also committed to provide greater transparency to make its domestic support measures more predictable.

Sanitary & Phytosanitary Standards – China will agree to apply sanitary and phytosanitary standards based on science. Among other things, this will give us additional means of enforcing the Agreement on Agricultural Cooperation and its commitment to lift longstanding bans on American meats, citrus fruit and Pacific Northwest wheat.

## **PROTOCOL ISSUES**

Finally, our bilateral agreement deals, appropriately, with the special and unusual

characteristics of the Chinese economy. These include the high degree of state participation in the Chinese economy; a series of industrial policy measures intended to draw jobs and technology from the U.S. and other trading partners to China, such as local content, offset and export performance requirements as well as forced technology transfer; and special measures to address import surges from China and unfair export practices like dumping.

Altogether, no agreement on WTO accession has ever contained stronger measures to strengthen guarantees of fair trade and to address practices that distort trade and investment. China's major commitments in this regard include:

Import Surge Protection – China has agreed to a twelve-year product-specific safeguard provision, which ensures that the U.S. can take effective action in case of increased imports from China which cause market disruption in the United States. This provision applies to all industries, permits us to act based on lower showing of injury, and act specifically against imports from China.

Non-Market Economy Dumping Methodology – China's WTO entry will guarantee our right to continue using our current "non-market economy" methodology in anti-dumping cases for fifteen years after China's accession to the WTO.

Subsidies – Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws. The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

Investment Reforms – China will reform a large number of policies intended to draw jobs and technology away from China's trading partners. It will, for example, implement the WTO's Agreement on Trade-Related Investment Measures agreement on accession; eliminate mandated offsets, local content and export performance requirements and refuse to enforce contracts containing these requirements; and not condition investment licenses on performance requirements of any kind. All of this will make it significantly easier for Americans to export to China from home, rather than seeing companies forced to set up in China in order to sell products there.

Technology Transfer – China will abolish requirements for technology transfer for U.S. companies to export or invest in China. This will better protect our competitiveness and the results of U.S. research and development.

State-Owned and State-Invested Companies – China commits that state-owned companies and state-invested enterprises will make purchases and sales solely on commercial terms, specify that purchases by these companies for commercial and non-governmental purposes are not government procurements and thus are not subject to any special or different rules that could

undercut basic WTO commitments, and provide U.S. firms the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Textiles – Under our agreement, quotas will remain in effect for Chinese textiles as for those of other WTO members until 2005. Moreover, until January of 2009, we will have a special safeguard enabling us to address market-disrupting import surges from China in the textile sector. This is in addition to the broader product-specific safeguard noted above.

## **COMPLIANCE AND ENFORCEMENT**

Of course, trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China's WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately imposition of sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and anti-dumping laws.

Third, we gain substantial new leverage by creating the product-specific safeguard, as well as guaranteeing our right to use non-market economy antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 136 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 135 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

Fifth, the specificity of China's commitments in this bilateral agreement will help us ensure that China complies. Experience shows that agreements with China are implemented and enforced most satisfactorily when obligations are concrete, specific, and open to monitoring. Our bilateral agreement therefore includes highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor China's compliance and present clear evidence of failure to comply.

Finally, however, enforcement (as in any agreement) depends on U.S. commitment. We

will relentlessly monitor and enforce China's compliance with its Protocol of Accession and all of the WTO agreements. We are already preparing for an increased monitoring and enforcement effort through President Clinton's request for \$22 million in new enforcement and compliance resources for USTR, the Commerce Department, USDA, and the State Department. The President has requested resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and strong enforcement of our trade laws.

The additional resources sought for the Office of the U.S. Trade Representative in the FY 2001 budget would create new positions in four areas of expertise -- legal, economic, geographic, and sectoral -- to be devoted to negotiating, monitoring, and enforcing trade agreements; and would almost double the number of USTR staff dedicated to China trade compliance. President Clinton's initiative also would triple resources at the Department of Commerce dedicated to China -- including administration of our antidumping and countervailing duty laws.

The Administration will be monitoring China's compliance on three fronts: (1) on-the-ground in China, where State, Commerce and Agriculture officers will seek to resolve U.S. business complaints and prevent compliance problems before they arise; (2) here in Washington, where special interagency teams of government experts will be created to examine China's implementation of each of the 20 WTO agreements as well as WTO commitments unique to China; and (3) at the WTO in Geneva, where the United States will join 135 other WTO members in the multilateral review mechanism designed especially for China.

USTR will create a special interagency structure that coordinates these initiatives to ensure that China fully complies with the commitments it has made. This will bring together our government's experts on both China and the subject matter of each of the 20 WTO agreements, to regularly and vigorously monitor China's compliance with all of the WTO agreements. These interagency teams will monitor everything from China's implementation of its tariff-rate quota commitments to the grant of insurance licenses and trading rights. Where they find non-compliance, we will use all the tools available to us -- under our trade laws, the WTO dispute settlement mechanism, the various WTO committees, and the special WTO transitional review mechanism -- to ensure implementation. In addition, we will create two new interagency committees to oversee two unique features of this historic agreement: one dedicated to U.S. participation in the multilateral review mechanism, and one to implement the product-specific safeguard mechanism to address import surges.

These interagency groups will base their work on information gathered from the American Embassy in Beijing, the Foreign Agricultural Service and Foreign Commercial Service; advice received from the business community, the agricultural community, trade associations, organized labor, and other non-governmental organizations; and information received from the public, including information received in response to requests for comment, via agency Web sites, and the Department of Commerce's domestic district office network.

The Administration will continue to work with Congress and American workers, farmers, and businesses to ensure effective monitoring and quick responses to non-compliance. At the

same time, we will seek to prevent or reduce problems by working with the Chinese, including through technical assistance where appropriate, to ensure they fully understand their new obligations. WTO rules will require real and meaningful changes in China's application of trade rules and policies, and consultation and training will help head off problems before they arise.

### **PERMANENT NORMAL TRADE RELATIONS**

By contrast to this comprehensive set of Chinese commitments, the U.S. commitment is merely to continue our present policies. Thus, the United States:

- Makes no changes in our current market access policies.
- Preserves our right to withdraw market access for China in the event of a national security emergency.
- Requires no changes in our laws controlling the export of sensitive technology.
- Amends none of our trade laws.

Our sole obligation is to grant China permanent NTR. This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since our Bilateral Commercial Agreement and normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Under the legislation President Clinton sent to Congress on March 8<sup>th</sup>, permanent NTR would only be available to China when the President certifies that China has entered the WTO on the basis of the commitments we reached in our bilateral agreement.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical, as without permanent NTR we risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. To refuse to grant permanent NTR, therefore, would enable our trade competitors throughout the world to reap these benefits; but American farmers and businesses would be left behind.

### **TAIWAN'S WTO ACCESSION**

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

## **III. WTO ACCESSION, PNTR, AND BROADER U.S. INTERESTS**

Let me now turn from the specific trade policy changes China's WTO accession and PNTR will make, to their implications for issues separate from trade, but central to the broader

US-China relationship.

U.S. trade policy, ever since the Second World War, has been one element in a larger response, conceived under Franklin Roosevelt and developed into concrete policies and institutions under President Truman, to the lessons of the Depression and the Second World War. These included collective security, reflected by the United Nations, NATO, the Rio Treaty and our alliances with the Pacific democracies; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; and the fostering of open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Each element in this set of policies and institutions, over the years, has had its own intrinsic benefit, but also helped to support and strengthen the others. And this will also be true with China's WTO accession and permanent NTR.

### **HUMAN RIGHTS AND THE RULE OF LAW**

With respect to reform within China, WTO accession represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date.

China's domestic reforms have reversed the most damaging policies of the Cultural Revolution and Great Leap Forward. WTO accession will accelerate and deepen this process, altering policies which date to the earliest years of the communist era. As it enters the WTO, China will:

- Permit foreigners and all Chinese businesses to import most goods into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services;
- Enable foreign businesses to participate in information industries such as telecommunications including the Internet; and
- Subject its decisions in all areas covered by the WTO to enforcement, including through formal dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, they reflect a judgment that prosperity, security and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war, but that China's own interests are best served by the advancing economic freedom, engagement with the world, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy



and human rights – Martin Lee, the leader of Hong Kong’s Democratic Party who visited Washington this week to restate his support for PNTR; Bao Tong, the reformer jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission last month drew worldwide sympathy – support PNTR and see WTO accession as China’s most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## **WTO ACCESSION AND AMERICAN NATIONAL SECURITY**

Perhaps still more important, the PNTR decision is a test of our ability to develop the type of stable, mutually beneficial relationship with China that will be critical to peace and stability in the Pacific region in the years to come.

Our relationship with China remains marked by substantial disagreements. When we disagree with China, to quote Theodore Roosevelt, speaking about the Open Door Policy to China in the first years of the 20<sup>th</sup> century:

“We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights.”

In this spirit, we recognize how important a stable and peaceful relationship with China is - for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas of shared interest and benefit. We saw this responsibility clearly in the Asian financial crisis. We see it in the environmental problems of the Asia-Pacific; and for nearly three decades, we have seen it in trade.

Neither this WTO accession agreement, nor any trade agreement will ever solve all our differences. However, the WTO accession, together with PNTR, will address a number of them; and moreover, it will do so through a set of one-way concessions by China. I believe that if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world’s largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda today -- from non-proliferation and arms control, to reducing tensions in Korea and South Asia. It would complicate for the foreseeable future our existing Pacific alliances, as all of our Asian friends and allies would view rejection of PNTR as an unnecessary rejection of stable and constructive relations with their largest neighbor; and a turn away from the open, confident vision we have held for the Pacific over the years.

Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence for every Pacific nation and for ourselves.

## **CONCLUSION**

That is the ultimate and most significant point at stake in Congress' decision next month. To reject PNTR would be to severely damage American trade interests; to set back the cause of reform in China; and to risk, without cause, a fundamental deterioration in our relationship with the world's largest country.

But if we have the wisdom and confidence to make the right choice, the WTO accession and PNTR offer us a remarkable opportunity.

Over three decades, trade policy has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments; in tandem with our advocacy of human rights; and in the best tradition of postwar American leadership; it has helped us build a relationship with the world's largest nation which strengthens guarantees of peace and security for us and for the world. And WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process in many years.

That is the opportunity before us. These are the stakes in this debate. And that is why this Administration – together with every living former Secretary of State; 47 State and Territorial Governors; all former U.S. Trade Representatives and Secretaries of Commerce, Agriculture, and the Treasury; and former Presidents of both parties – is committed to permanent NTR on the basis of this historic agreement.

Thank you very much.